FISCAL NOTE

Bill #:	HB0613	**Title:**	Privately funded economic development corporations
Primary Sponsor:	Lange, M	**Status:**	As Introduced

Sponsor signature Date

Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY 2004 Difference	FY 2005 Difference
Revenue:		
General Fund	($9,720,000)	($14,139,000)
Net Impact on General Fund Balance:	($9,720,000)	($14,139,000)

- ☐ Significant Local Gov. Impact
- ☐ Included in the Executive Budget
- ☐ Dedicated Revenue Form Attached
- ☒ Technical Concerns
- ☒ Significant Long-Term Impacts
- ☐ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. This bill would authorize the creation of economic development corporations, which would be corporations that would invest in other businesses meeting one of a list of criteria. These investments are not required to be in new businesses or expansions of existing businesses. In particular, the owners of a business meeting one of the criteria would be able to form an economic development corporation and transfer ownership of the existing business to the new economic development corporation.
2. Income that economic development corporations received from their investments would not be subject to corporate income tax, and the shareholders of an economic development corporation would be able to claim a credit against corporate or individual income tax equal to 50% of the amount they invest in an economic development corporation.
3. The types of businesses that economic development corporations would be allowed to invest in pay 50% of corporate income tax. The provisions of this bill would take effect at the beginning of fiscal 2004. In fiscal 2004, 5% of eligible businesses would restructure so that their profits would be recorded as profits of an economic development corporation, reducing corporate income tax collections by 2.5%. In fiscal 2005, an additional 5% of eligible businesses would restructure, and corporate income tax collections would be 5% lower than under current law.
4. Corporate income tax receipts are projected to be $64.782 million in fiscal 2004 and $69.223 million in fiscal 2005. This bill would reduce collections by $1.620 million in fiscal 2004 (2.5% x $64.782 million) and by $3.461 million in fiscal 2005 (5% x $69.223 million).
5. The owners of businesses that restructure to take advantage of the provisions of this bill would become shareholders of economic development corporations. They would be able to claim income tax credits equal to 50% of their investments in the economic development corporations. These investments would equal the value of the restructured businesses. On average, this would be 10 times the annual net income.

Credits resulting from restructurings in fiscal 2004 would total $16.200 million (10 x $1.620 million), and credits from restructurings in fiscal 2005 would total $17.306 million (10 x 2.5% x $69.223 million).

6. For most eligible taxpayers, the credit would exceed their tax liability for one year, and excess credits would have to be carried back to the three previous years and then carried forward for up to 15 years. In fiscal 2004, half of the credits from business restructurings in fiscal 2004 would be claimed against current income tax liabilities or claimed on amended returns for the three previous years. Income tax collections would be reduced by $8.100 million. In fiscal 2005, one-eighth of the credits from restructurings in fiscal 2004 would be claimed and half of the credits from restructurings in fiscal 2005 would be claimed. Income tax collections would be reduced by $10.678 million (1/8 x $16.200 million + 1/2 x $17.306 million).
7. Revenue to the general fund would be reduced by $9.720 million in fiscal 2004 and by $14.139 million in fiscal 2005
8. This bill would not have significant administrative impacts on the Department of Revenue.

FISCAL IMPACT:	FY 2004	FY 2005
Revenues:	Difference	Difference
General Fund (01)	$(9,720,000)	$(14,139,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	$(9,720,000)	$(14,139,000)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
No impact.

LONG-RANGE IMPACTS:
The revenue loss from this bill would grow for several fiscal years as more firms restructured to take advantage of its provisions.

TECHNICAL NOTES:
1. The codification instructions indicate that Sections 1 through 5 would become part of Title 35. The term “local economic development organization” is defined in Title 15 but not in Title 35.
2. Section 6 allows earnings on qualified investments to be deducted in calculating net income for corporation tax purposes. It does not clearly limit this deduction to economic development corporations.
3. Section 6 allows earnings on qualified investments to be deducted in calculating net income for corporation tax purposes. Section 3(1) makes such earnings exempt from taxation if they are reinvested in other qualified investments within three years. These provisions are redundant.
4. Section 3(2) makes earnings on qualified investments taxable if they are not reinvested within three years. This conflicts with Section 6, which allows such earnings to be deducted in calculating net income.